

# Endowment Fund Investment Board

Analyst: Houston

## Historical Summary

<b>OPERATING BUDGET</b>	<b>FY 2008 Total App</b>	<b>FY 2008 Actual</b>	<b>FY 2009 Approp</b>	<b>FY 2010 Request</b>	<b>FY 2010 Gov Rec</b>
<b>BY FUND CATEGORY</b>					
Dedicated	639,400	580,800	621,300	631,200	615,600
Percent Change:		(9.2%)	7.0%	1.6%	(0.9%)
<b>BY OBJECT OF EXPENDITURE</b>					
Personnel Costs	393,400	377,500	412,000	426,300	411,700
Operating Expenditures	240,000	199,200	201,300	196,900	196,900
Capital Outlay	6,000	4,100	8,000	8,000	7,000
<b>Total:</b>	<b>639,400</b>	<b>580,800</b>	<b>621,300</b>	<b>631,200</b>	<b>615,600</b>
Full-Time Positions (FTP)	4.00	4.00	4.00	4.00	4.00

## Division Description

The Endowment Fund Investment Board (EFIB) is responsible for managing the investments of the land grant endowment funds (§57-721, Idaho Code), the State Insurance Fund (§72-912, Idaho Code), the Judges' Retirement Fund (§1-2008, Idaho Code), and other moneys as required by law (§57-720, Idaho Code).

The State Legislature created the Endowment Fund Investment Board in 1969 (§57-718, Idaho Code), after the passage of a constitutional amendment in 1968. Before that, the State Treasurer had been responsible for the management of the state's land grant endowment funds. The Department of Finance took over investment responsibilities for two years until the EFIB's first manager was hired and the office opened July 1, 1971.

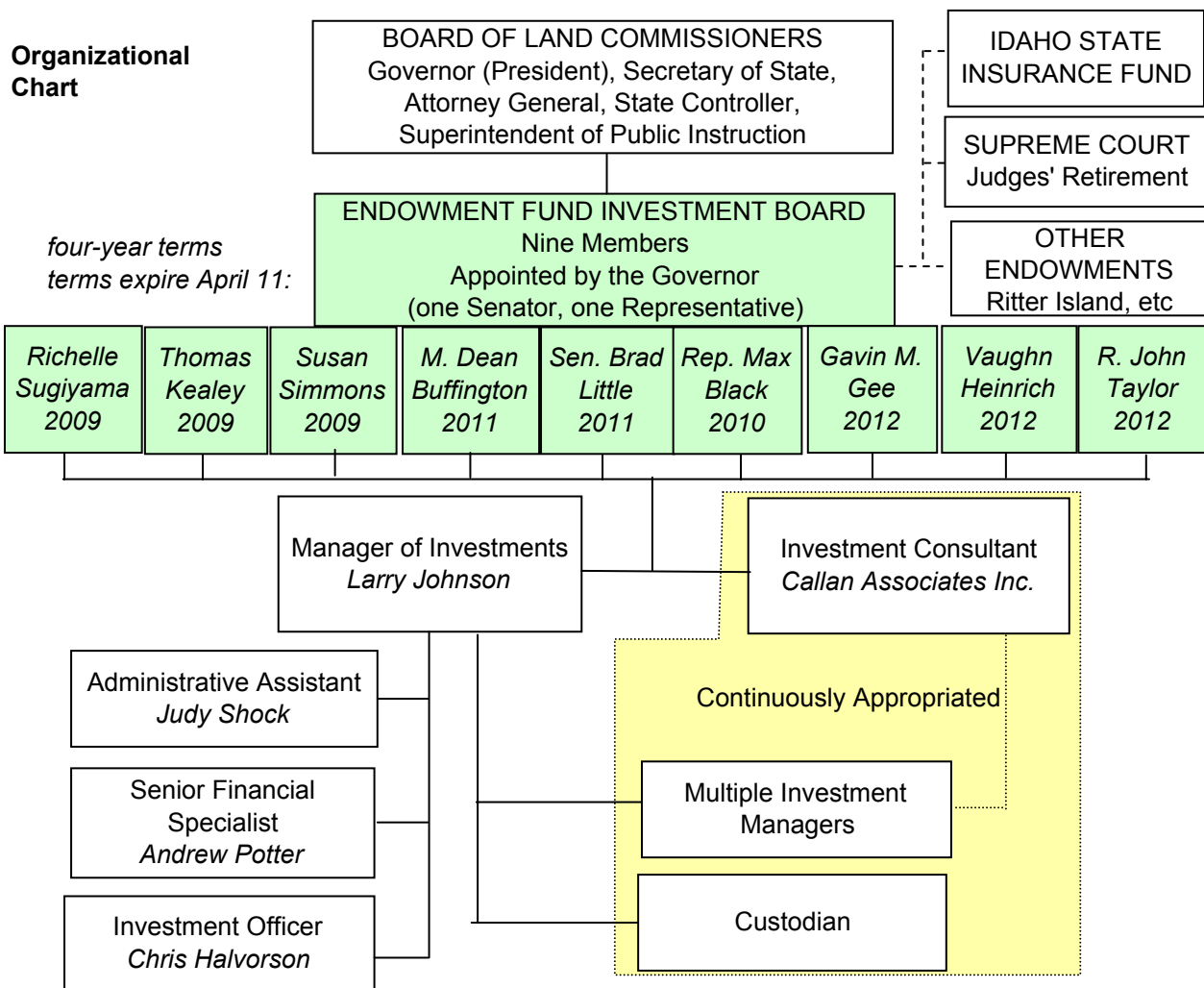
The 1998 Legislature approved four pieces of legislation (HJM9, HJR6, HJR8, and H643aa) that began the latest round of "Endowment Reform". 1) HJM9 requested that Congress allow proceeds from the sale of public school endowment lands to be deposited into a land bank to be used to purchase other lands. Congress later approved the memorial. 2) HJR6 proposed amendments to the state constitution to change the word "disposal" to "sale" and to allow a land bank. Voters approved the constitutional amendment but the Supreme Court later invalidated the amendment, ruling that the amendment contained two questions and was not put properly before the people. The land board resubmitted the constitutional amendment regarding the land bank as HJR1 in 2000 and the electorate approved the amendment in November of 2000. 3) HJR8 proposed amendments to the State Constitution to allow the permanent fund to be invested rather than loaned, to create an earnings reserve, and to allow for payment of administrative costs from the earnings reserve. Voters approved that constitutional amendment in November of 1998. 4) H643aa of 1998 set up the distribution mechanisms necessary for the permanent funds, the earnings reserve and the income funds. The bill moved the Endowment Fund Investment Board from the Governor's Office to the Land Board effective July 1, 2000. Therefore, actual expenditures before FY 2001 are shown in the Executive Office of the Governor. The legislation also set up a land bank, and changed the makeup of the Board. The makeup of the nine member Board changed to remove the Superintendent of Public Instruction and the Director of the Department of Finance and replaced them with two "public members from the citizenry at large who are knowledgeable and experienced in financial matters and the placement or management of investment assets" (§57-718). S1107 of 1999 changed the effective date of certain sections of H643aa to allow investment in equities effective February 15, 1999.

Furthermore, H690aa of 1998 established the Capitol Commission and the Capitol Endowment from the former Public Building Endowment. The legislation became effective on July 1, 1998 creating a potential conflict with H643aa which became effective July 1, 2000. However, during the 2000 session, the Legislature resolved that conflict by repealing the Public Building Endowment.

# Endowment Fund Investment Board

## Agency Profile

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Fund Sources	FY 2008 Expenditures	Percent of Total	FY 2009 Orig. Approp.	FY 2010 Request
<b>1. Miscellaneous Revenue Fund (0349-00)</b>	<b>\$ 115,100</b>	<b>19.8%</b>	<b>\$ 135,000</b>	<b>\$ 144,900</b>
The Endowment Fund Investment Board invests certain balances of other funds besides those endowed to the state at statehood. The appropriation is adjusted annually to insure that earnings pay for the administrative costs of managing the Judges' Retirement, State Insurance Fund, Ritter Island, and any other endowment's portion of the Board's portfolio based on the proportional amount of time spent managing those funds.				
<b>2. Endow Earnings Reserve Admin (0482-70)</b>	<b>465,700</b>	<b>80.2%</b>	<b>486,300</b>	<b>486,300</b>
Amendments to the Idaho State Constitution, effective July 1, 2000, allowed the Legislature to appropriate administrative costs from the earnings of those properties endowed to the state by congress at statehood. The Legislature provides a fixed appropriation for the salaries and operating costs of the staff and a continuous appropriation for external investment costs. However, the EFIB bills the Capitol Commission and those costs are recorded under miscellaneous revenue.				
<b>Total</b>	<b>\$ 580,800</b>	<b>100.0%</b>	<b>\$ 621,300</b>	<b>\$ 631,200</b>

Actual FY 2008 external investment costs paid through the continuous appropriation were \$3,823.136.

# Endowment Fund Investment Board

## Agency Profile

Analyst: Houston

### Profile of Key Services Provided

Millions of Dollars	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
<b>End of Year Market Values</b>						
1. Public School Permanent Endowment	\$436.2	\$500.6	\$537.2	\$581.9	\$662.5	\$633.1
2. Public School Earnings Reserve Fund	4.5	15.5	31.5	59.1	97.7	105.8
3. Pooled Endowments Permanent Funds	199.4	227.6	243.5	262.9	298.0	283.9
4. Pooled Endowments Earnings Reserves	14.8	17.7	22.4	32.4	62.1	85.1
5. Capitol Endowment (No Earnings Reserve)	3.3	6.2	8.3	13.6	17.7	17.6
6. Subtotal Land Grant Endowments	\$658.2	\$767.7	\$842.8	\$949.8	\$1,138.0	\$1,125.6
7. State Insurance Fund	311.8	357.8	413.4	472.9	555.8	602.4
8. Judges' Retirement Fund	46.8	51.2	53.7	57.3	65.1	59.7
9. Ritter Island State Park Endowment	0.0	0.0	0.0	0.0	0.0	1.0
10. Total Funds under Management	\$1,016.8	\$1,176.7	\$1,309.9	\$1,480.0	\$1,758.8	\$1,788.8

### Statehood Endowment Funds - From Accrual-Based Annual Audits

#### Public Schools Permanent Fund

11. Beginning Value July 1 Restated	\$441.5	\$436.2	\$500.6	\$537.2	\$581.9	\$662.5
12. Lands Contributions	2.2	.8	1.6	1.8	3.4	4.1
13. Change in Market Value	(7.6)	63.6	35.0	43.0	77.2	(33.4)
14. Public School Permanent Fund Balance	\$436.2	\$500.6	\$537.2	\$581.9	\$662.5	\$633.1
15. Change in Market Value/Beginning Value	-1.7%	14.6%	7.0%	8.0%	13.3%	-5.0%

#### Public Schools Earnings Reserve Fund

16. Beginning Value July 1 Restated	\$2.8	\$4.5	\$15.5	\$31.5	\$59.1	\$97.7
17. Lands Contributions	33.7	46.0	37.9	44.6	42.4	35.6
18. Transfers In (Out)	0.0	0.0	0.0	0.0	5.4	(.0)
19. Change in Market Value	6.7	2.0	2.1	4.4	11.4	(5.0)
20. Income from Investments	10.4	11.6	13.6	15.4	19.4	21.9
21. Lands Expenses	(9.7)	(8.9)	(12.2)	(11.1)	(12.4)	(14.5)
22. EFIB Expenses	(2.2)	(1.9)	(2.4)	(2.6)	(2.9)	(2.8)
23. Distributions to Beneficiaries	(37.1)	(37.8)	(23.0)	(23.1)	(24.6)	(27.0)
24. Ending Public Schools Earnings Reserve	\$4.5	\$15.5	\$31.5	\$59.1	\$97.7	\$105.8

#### Pooled Endowments Permanent Funds

25. Beginning Value July 1 Restated	\$201.5	\$199.4	\$227.6	\$243.5	\$262.9	\$298.0
26. Lands Contributions	.2	.0	.1	.1	.3	.2
27. Change in Market Value	(2.3)	28.2	15.8	19.4	34.8	(14.3)
28. Pooled Permanent Fund Balances	\$199.4	\$227.6	\$243.5	\$262.9	\$298.0	\$283.9

#### Pooled Endowments Earnings Reserve Funds

29. Beginning Value July 1 Restated	\$18.0	\$14.8	\$17.7	\$22.4	\$32.4	\$62.1
30. Lands Contributions	15.4	17.0	16.6	18.3	28.7	34.4
31. General Fund Contribution & Transfers	\$0.0	\$0.0	\$0.0	\$4.6	\$2.0	(.0)
32. Change in Market Value	2.1	2.9	1.7	2.4	7.2	(3.4)
33. Income from Investments	4.9	5.5	6.4	7.2	9.0	10.7
34. Lands Expenses	(4.6)	(4.2)	(4.5)	(4.1)	(4.7)	(5.7)
35. EFIB Expenses	(1.1)	(.9)	(1.1)	(1.2)	(1.3)	(1.4)
36. Distributions to Beneficiaries	(19.9)	(17.4)	(14.4)	(17.3)	(11.2)	(11.6)
37. Ending Pooled Earnings Reserves Funds	\$14.8	\$17.7	\$22.4	\$32.4	\$62.1	\$85.1

38. Investment Return Before Fees	1.7%	16.8%	9.7%	10.9%	16.6%	(2.1%)
39. Internal and External Management Fees					0.37%	0.38%

# Endowment Fund Investment Board

## Agency Profile

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### Endowment Distributions to the Beneficiaries

On September 2, 2008, the Endowment Fund Investment Board (EFIB) submitted their budget request to the Division of Financial Management and the Legislative Services Office. The budget contained the Land Board approved endowment distributions for FY 2010. For public schools, the FY 2010 recommendation is \$1.6 million or 5.4% more than the FY 2009 appropriation. The pooled endowment distribution is \$1.6 million or 12.9% more than this year.

Fiscal Year	Distributions to Beneficiaries			% Change from previous year			Spending Rule <sup>1</sup>	
	Pooled	Public Schools	Total Pooled & Pub Sch	Pooled	Public Schools	Total Pooled & Pub Sch	Pooled	Public Schools
2010*	14,362,800	31,292,400	45,655,200	12.9%	5.4%	7.6%	5.0%	5.0%
2009	12,720,200	29,692,900	42,413,100	9.4%	10.0%	9.8%	5.0%	5.0%
2008	11,622,000	26,995,000	38,617,000	3.8%	9.5%	7.7%	5.0%	5.0%
2007	11,197,400	24,648,200	35,845,600	(11.5%)	6.8%	0.3%	5.0%	5.0%
2006	12,655,800	23,087,100	35,742,900	(12.3%)	0.6%	(4.4%)	6.0%	5.0%
2005	14,436,910	22,957,800	37,394,710	(16.8%)	(39.2%)	(32.1%)	7.0%	5.0%
2004	17,355,000	37,750,000	55,105,000	(12.9%)	1.9%	(3.3%)	7.5%	7.5%
2003	19,925,000	37,056,500	56,981,500	(9.3%)	(22.3%)	(18.2%)	7.5%	7.5%
2002	21,965,000	47,675,000	69,640,000	5.9%	6.7%	6.4%	8.0%	8.0%
2001	20,750,000	44,700,000	65,450,000	7.9%	4.6%	5.6%	8.5%	8.5%
2000	19,225,283	42,753,811	61,979,094	12.4%	3.4%	6.1%	<sup>1</sup> Post reform distributions are based on a percent to the 3-year moving average of the permanent funds. Penitentiary and School of Science is 4.1% for FY 2008 and FY 2009.	
1999	17,106,900	41,331,115	58,438,015	5.6%	3.2%	3.9%		
1998	16,196,150	40,040,799	56,236,949	2.1%	10.7%	8.1%		
1997	15,859,342	36,159,798	52,019,140	7.6%	15.2%	12.8%		
1996	14,740,394	31,378,096	46,118,490	9.8%	3.1%	5.2%		
1995	13,426,310	30,426,255	43,852,565					

Fiscal Year	Agricultural College	Charitable Institutions <sup>2</sup>	Normal School <sup>3</sup>	Penitentiary	School of Science	Mental Hospital	University of Idaho	Total Pooled
2010*	850,800	2,964,000	2,661,600	1,040,400	2,984,400	1,532,400	2,329,200	14,362,800
2009	794,000	2,826,100	2,534,100	794,000	2,332,300	1,258,700	2,181,000	12,720,200
2008	725,000	2,582,000	2,310,000	728,000	2,138,000	1,149,000	1,990,000	11,622,000
2007	661,200	2,361,300	2,115,700	809,300	2,375,800	1,051,500	1,822,600	11,197,400
2006	(2,130,000)	(2,470,000)	3,205,600	2,444,800	2,848,500	5,291,400	3,465,500	12,655,800
2005	380,400	1,407,450	2,969,624	1,509,520	3,136,900	1,874,720	3,158,296	14,436,910
2004	960,000	3,430,000	3,195,000	1,215,000	3,785,000	1,660,000	3,110,000	17,355,000
2003	1,139,000	4,070,000	3,695,000	1,358,000	4,254,000	1,905,000	3,504,000	19,925,000
2002	1,280,000	4,673,000	4,068,000	1,566,000	4,709,000	2,024,000	3,645,000	21,965,000
2001	1,127,000	4,502,000	3,788,000	1,521,000	4,479,000	1,845,000	3,488,000	20,750,000
2000	964,277	3,806,215	3,870,068	1,251,157	3,778,442	2,462,520	3,092,604	19,225,283
1999	873,990	3,840,734	3,312,164	1,200,994	3,535,388	1,716,600	2,627,030	17,106,900
1998	888,342	3,395,470	3,158,530	1,122,762	3,096,427	1,944,081	2,590,538	16,196,150
1997	819,356	3,586,560	3,214,554	1,122,666	3,244,258	1,394,933	2,477,015	15,859,342
1996	770,790	3,132,278	2,721,294	1,282,320	2,806,409	1,581,336	2,445,967	14,740,394
1995	722,892	2,850,557	2,441,476	1,148,952	2,506,060	1,408,037	2,348,336	13,426,310

\* Estimates

<sup>2</sup> Charitable Institutions: 4/15 Idaho State University, 4/15 State Juvenile Corrections Center, 4/15 State Hospital North, 5/30 Veterans Home, and 1/30 School for the Deaf and the Blind.

<sup>3</sup> Normal School: 1/2 to ISU College of Education and 1/2 to Lewis Clark State College.

Note: FY 2001 was the first year after endowment reform. Before that, timber revenues were deposited to the permanent fund and lease and interest revenues were distributed to the beneficiaries. Since reform, interest, lease income, and timber revenues have been put into the earnings reserve and distributions to the beneficiaries have been based on the values of the permanent funds. The FY 2003 Public School payout was short of the 7.5% rule by \$6.25 million. In January of 2005, the EFIB suspended distributions to the Ag College and Charitable Institutions due to negative balances in the Earnings Reserves. The Joint Finance-Appropriations Committee adjusted the FY 2005 and FY 2006 appropriations to keep the overall support as anticipated except for 6-mos FY 2005 reductions to Deaf and Blind (\$46,915) and Veterans Services (\$234,575).

# Endowment Fund Investment Board

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## Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
<b>FY 2009 Original Appropriation</b>	<b>4.00</b>	<b>0</b>	<b>621,300</b>	<b>4.00</b>	<b>0</b>	<b>621,300</b>
Health Insurance Reduction	0.00	0	0	0.00	0	(2,000)
<b>FY 2009 Total Appropriation</b>	<b>4.00</b>	<b>0</b>	<b>621,300</b>	<b>4.00</b>	<b>0</b>	<b>619,300</b>
Removal of One-Time Expenditures	0.00	0	(8,000)	0.00	0	(8,000)
<b>FY 2010 Base</b>	<b>4.00</b>	<b>0</b>	<b>613,300</b>	<b>4.00</b>	<b>0</b>	<b>611,300</b>
Benefit Costs	0.00	0	3,700	0.00	0	1,700
Inflationary Adjustments	0.00	0	1,400	0.00	0	1,400
Replacement Items	0.00	0	8,000	0.00	0	7,000
Statewide Cost Allocation	0.00	0	(5,800)	0.00	0	(5,800)
Change in Employee Compensation	0.00	0	10,600	0.00	0	0
<b>FY 2010 Program Maintenance</b>	<b>4.00</b>	<b>0</b>	<b>631,200</b>	<b>4.00</b>	<b>0</b>	<b>615,600</b>
1. Adjust Budget between Funds	0.00	0	0	0.00	0	0
2. Continuous Appropriation	0.00	0	0	0.00	0	0
<b>FY 2010 Total</b>	<b>4.00</b>	<b>0</b>	<b>631,200</b>	<b>4.00</b>	<b>0</b>	<b>615,600</b>
Change from Original Appropriation	0.00	0	9,900	0.00	0	(5,700)
% Change from Original Appropriation			1.6%			(0.9%)

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
<b>FY 2009 Original Appropriation</b>	4.00	0	621,300	0	621,300
<b>Health Insurance Reduction</b>					
Agency Request	0.00	0	0	0	0
<i>The Governor recommends reducing the funding for health insurance by \$500 per FTP, using reserves to offset the increased costs of health insurance for the state for FY 2009 and FY 2010.</i>					
Governor's Recommendation	0.00	0	(2,000)	0	(2,000)
<b>FY 2009 Total Appropriation</b>					
Agency Request	4.00	0	621,300	0	621,300
Governor's Recommendation	4.00	0	619,300	0	619,300
<b>Removal of One-Time Expenditures</b>					
Removes \$5,000 provided for a computer server and \$3,000 provided for two computers.					
Agency Request	0.00	0	(8,000)	0	(8,000)
Governor's Recommendation	0.00	0	(8,000)	0	(8,000)
<b>FY 2010 Base</b>					
Agency Request	4.00	0	613,300	0	613,300
Governor's Recommendation	4.00	0	611,300	0	611,300
<b>Benefit Costs</b>					
Provides \$900 per position, which equates to a 10.4% increase for employer-paid health insurance. Also, includes a 19% reduction in life and disability insurance rates from 1.1% to 0.9% of salary for eligible employees.					
Agency Request	0.00	0	3,700	0	3,700
<i>The Governor recommends providing an increase of \$400 per FTP and making changes to the health insurance benefits contract to meet expected costs. Including the rescission to reduce health insurance benefit costs in FY 2009 by \$500 per FTP, employer costs per FTP for FY 2010 will be \$8,600.</i>					
Governor's Recommendation	0.00	0	1,700	0	1,700
<b>Inflationary Adjustments</b>					
Inflationary increases are calculated using the ongoing base for operating expenditures multiplied by an agency-specific inflation factor. The inflationary adjustment reflects less than a 1% increase in total funds. The requested amount is \$1,400 for general inflation.					
Agency Request	0.00	0	1,400	0	1,400
<i>The Governor recommends inflation for increased independent audit fees.</i>					
Governor's Recommendation	0.00	0	1,400	0	1,400
<b>Replacement Items</b>					
Includes \$5,000 for a copier, \$1,000 for a projector, and \$2,000 for two computers. [One-time]					
Agency Request	0.00	0	8,000	0	8,000
<i>The Governor recommends the replacement of one computer instead of two.</i>					
Governor's Recommendation	0.00	0	7,000	0	7,000
<b>Statewide Cost Allocation</b>					
The request includes adjustments to recover the costs of services provided to state agencies: a reduction of \$5,900 for Attorney General fees; an increase of \$100 for property and casualty insurance premiums; a reduction of \$100 for State Controller fees; and an increase of \$100 for State Treasurer fees.					
Agency Request	0.00	0	(5,800)	0	(5,800)
Governor's Recommendation	0.00	0	(5,800)	0	(5,800)
<b>Change in Employee Compensation</b>					
Agencies were instructed to calculate a 3% salary increase in the appropriation request.					
Agency Request	0.00	0	10,600	0	10,600
<i>While increasing salaries of state workers continues to be a priority for the Governor, the current economic situation does not provide the funds to recommend an increase in FY 2010. When economic conditions improve, the Governor will once again seek to improve compensation for all state employees.</i>					
Governor's Recommendation	0.00	0	0	0	0



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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
<b>FY 2010 Program Maintenance</b>					
Agency Request	4.00	0	631,200	0	631,200
<i>Governor's Recommendation</i>	<i>4.00</i>	<i>0</i>	<i>615,600</i>	<i>0</i>	<i>615,600</i>

## 1. Adjust Budget between Funds

This is a fund shift of \$7,900 from the Endowment Administrative Fund to the Miscellaneous Revenue Fund. The shift is calculated annually based on the proportion of time spent on the various portfolios.

Agency Request	0.00	0	0	0	0
<i>Recommended by the Governor.</i>					
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

## 2. Continuous Appropriation

The Endowment Fund Investment Board requests a continuous appropriation for consulting fees, bank custodial fees, and portfolio-related external costs. The variable costs associated with these services depend on the size of the portfolio and the turnover of investments. This uncertainty makes budgeting difficult. Legislative intent included in the appropriation bill allows the Legislature to re-evaluate the need for a continuous appropriation on an annual basis and to consider a fixed appropriation should the costs be determined to be more predictable. Actual costs paid through the continuous appropriation for FY 2001 were \$1,327,421 (the first full-year after endowment reform), \$3,215,995 for FY 2002, \$2,528,072 for FY 2003, \$2,178,500 for FY 2004, \$2,603,623 for FY 2005, \$3,832,942 for FY 2006, \$3,861,545 for FY 2007, and \$3,823,136 for FY 2008.

Language Requested: The Endowment Fund Investment Board is hereby granted continuous appropriation authority for consulting fees, bank custodial fees, and portfolio-related external costs for the period July 1, 2009, through June 30, 2010.

Agency Request	0.00	0	0	0	0
<i>Recommended by the Governor.</i>					
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

<b>FY 2010 Total</b>					
Agency Request	4.00	0	631,200	0	631,200
<i>Governor's Recommendation</i>	<i>4.00</i>	<i>0</i>	<i>615,600</i>	<i>0</i>	<i>615,600</i>

Agency Request					
Change from Original App	0.00	0	9,900	0	9,900
% Change from Original App	0.0%		1.6%		1.6%
<i>Governor's Recommendation</i>					
<i>Change from Original App</i>	<i>0.00</i>	<i>0</i>	<i>(5,700)</i>	<i>0</i>	<i>(5,700)</i>
<i>% Change from Original App</i>	<i>0.0%</i>		<i>(0.9%)</i>		<i>(0.9%)</i>